



**MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE
OF THE PLANS MANAGEMENT BOARD
August 10, 2021**

A meeting of the Audit and Governance Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on August 10, 2021, at 10:00 a.m. at the Office of the State Treasurer – Carvel State Building, 820 N. French Street, Wilmington, DE. Committee members and members of the public were able to participate using the provided dial-in information.

Committee Members Represented or in Attendance:

Mr. Peter Kennedy, Committee Chair

Mr. John Macedo

Mr. Timothy J. Snyder

Ms. Liza Davis, Deputy State Treasurer (on behalf of The Honorable Colleen C. Davis, State Treasurer)

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice

Mr. John Meyer, Director of Contributions and Plan Management, Office of the State Treasurer (“OST”)

Mr. Daniel Kimmel, Promotion and Outreach Program Manager, OST

Mr. Michael Green, Investment and Program Manager, OST

Mrs. Deborah Bradl, Executive Assistant, Contributions and Plan Management, OST

Mr. Daniel Madrid, Chief Operating Officer, OST

Mr. Jordan Seemans, Director of Policy and Communications, OST

Mr. Earle Allen, CAPTRUST

Ms. Maria Hurd, Director, Belfint, Lyons, and Shuman (“BLS”)

Mr. Christopher Ciminera, Principal, BLS

Mr. Tyler Starr, Senior Accountant, BLS

CALLED TO ORDER

The meeting was called to order at 10:00 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Macedo and seconded by Mr. Kennedy to approve minutes from the Committee meeting on May 11, 2021.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

401(a) Match Plan Audit Report (2020)

Mr. Ciminera presented the Committee with the 401(a) Match Plan audit report for the plan year 2020. Mr. Ciminera stated that total plan assets increased by \$2.1 million during 2020 from \$22.9 million as of December 31, 2019, to \$25.0 million as of December 31, 2020. This increase was primarily due to market appreciation in 2020. There was a decrease in the total number of accounts with balances from 9,328 as of December 31, 2019, to 8,991 as of December 31, 2020. Distributions decreased from \$1.2 million in 2019 to \$1 million in 2020. Fluctuations in distributions paid from year to year are primarily due to changes in the number of participants and beneficiaries receiving eligible distributions, as well as the size of the distributions. The average distribution amount was \$1,798.

Plan administrative expenses decreased slightly from approximately \$60,000 in 2019 to approximately \$59,000 in 2020. Fluctuations in fees are the result of different arrangements with the service providers and annual expenses for the Plan.

457(b) Audit Presentation (2020)

Mr. Ciminera provided the Committee with the audit report for plan year 2020 and the financial highlights for the 457(b) Plan. He stated that in plan year 2020 there was a \$105 million increase in assets from \$736.1 million as of December 31, 2019, to \$840.7 million as of December 31, 2020. Mr. Ciminera attributed the growth in assets to contributions and earnings being more than distributions during 2020. Mr. Ciminera stated that the total number of accounts with balances increased from 16,393 as of December 31, 2019, to 16,571 as of December 31, 2020. He reported that 1,581 participants took distributions from the Plan. The average distribution decreased from \$23,400 per person in 2019 to \$17,003 per person in 2020. The number of employees contributing to the plan decreased slightly from 10,665 in 2019 to 10,626 in 2020. Contribution amounts increased from \$38.3 million in 2019 to \$41.1 million in 2020. The average participant deferral rate is five percent of wages.

Mr. Ciminera stated that administrative expenses increased from approximately \$800,000 in 2019 to \$1.2 million in 2020. Mr. Ciminera attributed the increase to the reinstatement of the state administrative fee in June 2020 and noted that fluctuations generally relate to changes in the service agreements and how fees have been paid in the past compared to the current year, as well as the assets held by the Plan (as fees are asset based).

There were six audit findings. Mr. Ciminera identified audit findings regarding missing participant procedures for ten uncashed checks. The amount per check is small and OST has been working with Voya to locate participants. Mr. Ciminera noted a second finding regarding Roth deferrals withheld from Delaware Transit Corporation (“DTC”) payroll that were not appropriately reported on W-3s and participant W-2s. While there is no impact to the Plan, this finding may impact reporting to the IRS for the affected participants. The third finding relates to several discrepancies in deferral withholdings. Mr. Kennedy inquired about several of the discrepancies and noted that OST and Voya identified and were able to resolve them. Mr. Kennedy recognized OST’s efforts and noted that the plan’s internal controls worked. The fourth finding involved the timeliness of deposits. Mr. Macedo asked if there are regulations that govern this issue. Mr. Ciminera stated there are not any that apply to state plans. Mr. Snyder stated that the Department of Labor did allow leeway due to Covid-19 as a reasonable accommodation. Ms. Hurd stated that plans should consider documenting the reason for any delay. The fifth finding concerned contributions made by three participants that were improperly coded as both

regular and special catchups and was subsequently resolved by OST. The sixth finding relates to DTC 457(b) participants not having access to the special catchup form. DTC processed an election without prior review by OST. DTC will request OST approval prior to processing special elections.

403(b) Plan Audit Report (2020)

Mr. Ciminera provided the Committee with the draft audit report and financial highlights for plan year 2020. Mr. Ciminera stated that total plan assets increased by \$59.3 million from \$446.4 million as of December 31, 2019, to \$505.7 million as of December 31, 2020. Mr. Ciminera stated that participant contributions increased from \$24.5 million in plan year 2019 to \$27.3 million in plan year 2020. The average deferral was \$4,121 in plan year 2020 compared to \$3,837 in plan year 2019. Mr. Ciminera stated that the total number of active accounts with balances increased from 5,755 in 2019 to 6,000 in 2020. Distributions increased slightly from approximately \$27.3 million in 2019 to approximately \$27.9 million in 2020. Fluctuations in distributions paid from year to year are primarily due to changes in the number of separated, deceased, or retired participants and beneficiaries receiving eligible distributions per year, as well as the size of their distributions.

Mr. Ciminera stated that administrative expenses increased from about \$889,475 in plan year 2019 to \$939,863 in plan year 2020. Fluctuations in these fees generally relate to changes in the service agreements and how fees have been paid in the past compared to the current year, as well as the assets held by the Plan (as fees are asset based). Mr. Ciminera noted that there were 69 coronavirus-related distributions totaling \$729,420 in plan year 2020.

There was one material weakness noted by BLS. Security Benefit reported 12 participant accounts on the 2019 report that were not reported on the 2020 report. Mr. Meyer questioned what options the State has to remediate this type of weakness. BLS stated that the problem may be due to Security Benefit's reporting software. OST will send a letter communicating the weakness to Security Benefit and report back to the Committee.

There were two audit findings. The first pertained to the missing-participant procedures. Mr. Ciminera stated the first audit finding regarding missing-participant procedures involved uncashed checks and that OST has been working with Voya to locate the participants. The second finding pertained to participant deferrals refunded by Voya. BLS reconciles participant deferrals reported on payroll to the deferrals deposited into the plan. BLS noted several participants who had contributions refunded twice by Voya. BLS recommended that OST continue to work with Voya to monitor refunds.

529 College Plan Audit Report (2020)

Mr. Ciminera reported on the financial highlights of the plan and stated that 529 plan assets increased by \$44 million from \$686 million as of December 31, 2019, to \$730 million as of December 31, 2020. The Committee requested comparative financial statements for future audits and BLS agreed to make this addition in future audits. Mr. Ciminera also noted that contributions to the plan were approximately \$120.0 million, while withdrawals were approximately \$145 million. Mr. Ciminera noted that there were 5,300 participants who made withdrawals from their accounts this year.

DISCUSSION AND ACTION ITEMS

Recommendation Regarding Plan Audits

The Committee decided to defer recommending approval of the audit reports to the Board until the November 2021 Committee meeting, at which point all the 2020 audit reports will have been finalized.

Recommendations Regarding the Office of the Auditor of Accounts

Mr. Meyer presented the new Memorandum of Understanding (“MOU”) between the Board, OST and the Office of the Auditor of Accounts (“AOA”). The Committee discussed the new MOU and the administrative fees paid to AOA. The Committee noted that the new MOU contains a definition of the fee as being assessed at the Maximus rate. The Committee inquired what the current Maximus rate was for AOA fees. The Committee discussed the current MOU and the definition of a reasonable rate fee. Mr. Meyer noted the Board, in March 2021, approved the 2021 Plan Administrative Budget, which included the reasonable rate fee of 8.91%. The Committee reviewed the letter agreement outlining the definition of a reasonable rate. Mr. Meyer stated that AOA was requesting an administrative fee at 11.25% for the 2020 plan audits. Mr. Meyer asked the Committee for a recommendation to pay the difference between the agreed upon 10-year average rate and the requested 11.25% fee by AOA. The Committee discussed adhering to the written agreement as the fee is paid out of participant dollars. The Committee also questioned the Board’s lack of participation in the RFP selection of the audit firm. Mr. Macedo stated that from a fiduciary standpoint the Committee should look at whether the fees are reasonable for the service(s) provided. He further stated that if the fees are not reasonable, the Plan should not have to pay the excess, but the State may have to pay any such excess amount. Mr. Meyer briefed the Committee that the Maximus rate for the 2021 audits would be assessed at 16.71% by AOA.

**A MOTION was made by Mr. Kennedy and seconded by Deputy Treasurer Davis that the Committee adhere to the rate as defined in the existing MOU.
MOTION ADOPTED UNANIMOUSLY**

**A MOTION was made by Mr. Kennedy and seconded by Deputy Treasurer Davis that the Committee reject the new proposed MOU because the fee is tied to the Maximus rate.
MOTION ADOPTED UNANIMOUSLY**

PUBLIC COMMENT

No member of the public was present for comment.

Executive Session

No Executive Session was held.

NEXT MEETING

The next meeting of the Committee is scheduled for November 2, 2021.

The next meeting of the Board is scheduled for September 14, 2021.

ADJOURNMENT

Meeting was adjourned by Chair at 11:56 a.m.

Respectfully submitted,

Pete Kennedy, Chair for the Audit and Governance Committee